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3.3(h)(2)

10 February 1954 3.5(c)

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Copy No. 04

CURRENT INTELLIGENCE BULLETIN

DOCUMENT NO. 46
NO CHANGE IN CLASS.
 DECLASSIFIED
CLASS. CHANGED TO: TS S C
NEXT REVIEW DATE: 2009
AUTH: HR 70-2
DATE: 27 DEC 1979 REVIEWER: [Redacted]

[Redacted box]

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

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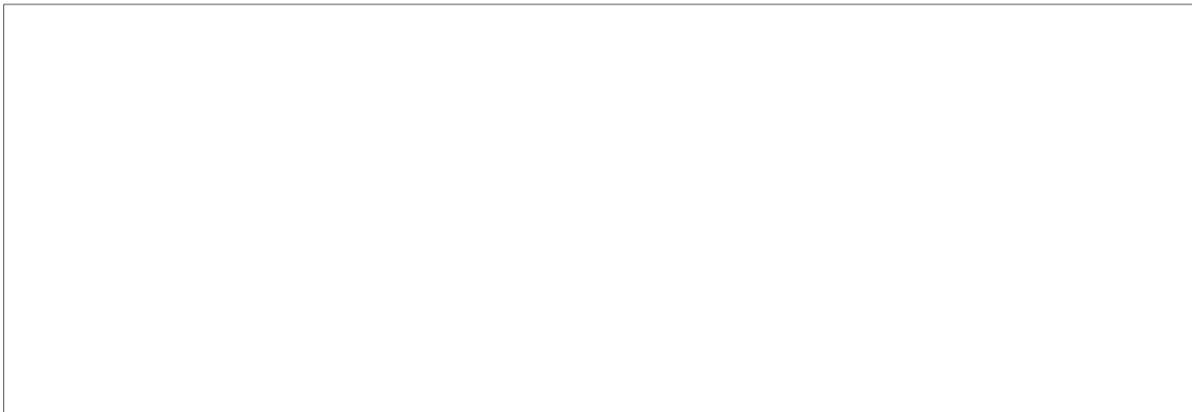
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GENERAL

1. Soviet Council of Ministers to consider Egypt's request for economic aid:

Comment: The USSR recently granted aid and technical assistance to Afghanistan and offered the latter to India. It is possible that an agreement may be worked out with Egypt. It is unlikely, however, that Soviet aid would approach the magnitude required for the Egyptian projects, since the estimated cost of the dam alone is more than \$500,000,000.

The Nagib regime is under considerable political pressure to start these much-publicized projects and probably cannot finance them despite claims that it would attempt to do so if foreign aid is unavailable.

The United States has refused financial assistance pending further study of the projects. Egypt is also negotiating with the West German government, which will participate only on a limited scale.

2. Mao-Malenkov meeting allegedly scheduled for Mukden:

Soviet ambassador Yudin has "persuaded" Mao Tse-tung to meet Malenkov in Mukden, Manchuria, during early February, [redacted]

[redacted] The meeting is allegedly to "find a line of compromise" between the "pan-Russian tendency" of the Soviet regime and the "pan-Asiatic tendency" of Peiping.

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Comment: Mao's whereabouts since December has been unknown; however, Malenkov has been identified by the Soviet press as being in Moscow from 25 to 28 January and from 3 to 5 February.

Although Peiping's strong influence with other Far Eastern Communist movements poses a possible long-range problem for Moscow, there is no evidence of a current Sino-Soviet conflict on this question.

FAR EAST

3. South Korea threatened by new uncontrolled inflation:

 South Korea faces another period of uncontrolled inflation, according to American economic coordinator Wood. He notes that the present monthly budget deficits are expected to triple during the first half of 1954, and that aid goods will not arrive fast enough to withdraw substantial amounts of currency from the economy.

Wood warns that even with considerably increased arrivals of salable aid goods over present expectations, a further substantial rise in prices is unavoidable.

Comment: Large budgetary deficits, caused principally by military expenditures, increased the price level some 2,000 percent during the war. While a favorable food situation helped slow the pace of inflation in 1953, the amount of currency outstanding has more than doubled during the past year.

SOUTHEAST ASIA

4. Magsaysay prepared to recognize Associated States:

 Philippine president Magsaysay expressed his determination, during conversations with an American embassy officer on 5 February, to achieve recognition of Indochina

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during the present session of the Philippine Congress. He welcomed a suggestion that the Nacionalista stalwart, Senator Recto, be sent on a mission to Indochina in order to overcome his opposition to recognition.

Comment: The Magsaysay administration appears to have repudiated the stand taken by the preceding administration that recognition of the Associated States would imply Philippine subservience to American foreign policy.

Thailand is at present the only Asian country maintaining diplomatic relations with the Associated States.

5. French believe Viet Minh moving 312th Division into northern Laos:

The French believe that the Viet Minh 312th Division, with which they have had no contact for almost a week, is moving either to reinforce the 308th Division in its advance on Luang Prabang or to attack the Plaine des Jarres to the east, the American army attaché in Saigon reports.

the 308th Division has outdistanced its cooone supply units and must slow its advance toward Luang Prabang. Viet Minh units both in northwestern Tonkin and upper Laos are short of rice, owing to transport difficulties, air attacks, and French destruction of hidden stocks, and that additional rice supplies have been requested of the Chinese.

Comments: Supply difficulties restricted the Viet Minh campaign in northern Laos last year. With recent improvements in supply routes in the border area of western Tonkin and preparatory stockpiling in Laos, however, the Viet Minh has improved its supply situation. In the past, the French have consistently underestimated the Viet Minh's logistic capabilities.

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~~TOP SECRET~~6. Situation in Tonkin delta described as "rotten":

[REDACTED] A French officer in Saigon, responsible for estimates on the over-all situation in Indochina, told the American army attaché that the situation in the delta is "rotten." He said that French briefings for Americans usually show the situation better than it is. In his opinion, a French military victory in the delta is impossible.

In speaking of areas overrun by the Viet Minh, he said that French experience had shown that after visits of propaganda units and displays of armed force by the Viet Minh, the population of those areas would "never be the same."

Comment: Information provided last November by the Vietnamese civil administration in Tonkin revealed that a sizable increase in the number of villages under enemy control had occurred even during the rainy season when nearly all French reserves were inside the delta defense perimeter. The current dispersal of the French mobile reserve from the delta has permitted heavy enemy infiltration.

7. India agrees to buy 600,000 tons of Burmese rice:

[REDACTED] The Indian government has agreed to purchase about 600,000 tons of rice from Burma, according to the American embassy in New Delhi. The price is reported to be around 35 pounds sterling per ton, and deliveries are expected to begin within a month or two.

Comment: This large sale, which will amount to about three fourths of Burma's carry-over from its 1953 rice stocks, should reduce pressure on the government to develop trade with the Orbit. It should also remove, at least temporarily, the threat of large-scale agrarian unrest.

The Rangoon government has been able to obtain firm commitments for only 25 percent of the nearly 2,000,000 tons expected as surplus for export from the current rice crop, which is now almost completely harvested.

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SOUTH ASIA

8. Alleged dissatisfaction in Indian parliament with Nehru's neutralism:

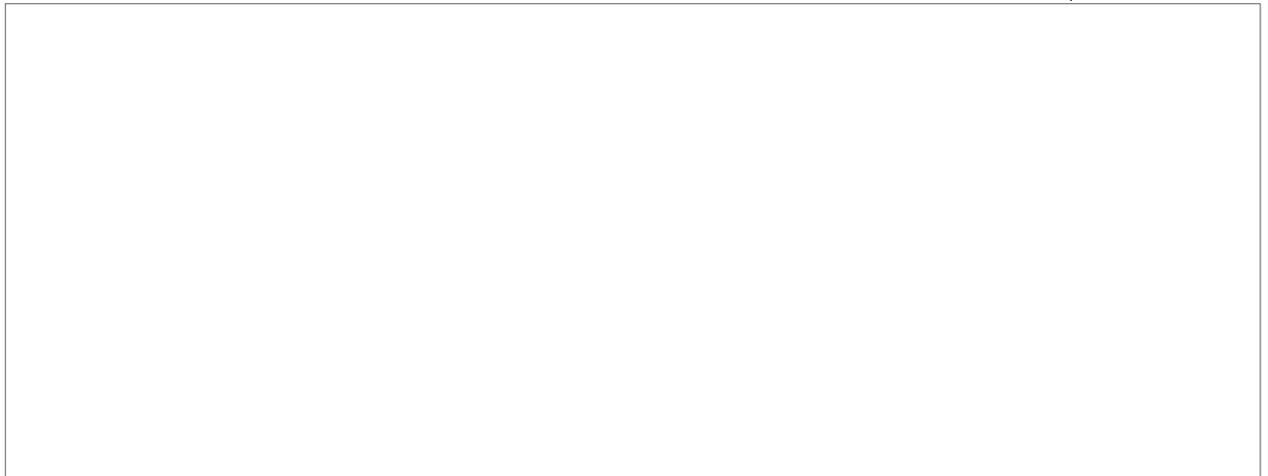
 young Congress Party members in the Indian parliament are markedly dissatisfied with Prime Minister Nehru's neutralist

foreign policy, 

The members of this group, who represent a majority of the party's strength in parliament, hold that neutralism is impractical, and 70 percent of them believe India should align itself openly with the West.

Comment: This is the first report suggesting that there is strong pro-Western sentiment in the Indian parliament. There is little possibility, however, that the attitudes of younger Congress Party members, even if accurately reported, will have any immediate influence on Nehru and his older advisers, who are in firm control of the party machinery. It is probable, however, that within the Congress Party there is considerably more resentment against Nehru's one-man rule than appears in public.

LATIN AMERICA

9. Guatemala may attempt to purchase F-51's from European seller:

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Comment: In view of the United States position regarding arms shipments to Guatemala, it is unlikely that any Latin American government would knowingly act as an intermediary in this proposed deal.

Several Western European countries, including Italy and Switzerland, have surplus F-51 aircraft. In the past, however, all Guatemalan efforts to obtain planes from Western Europe have failed.

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